

# Growth vs Development

## Defining Development

**Sen:** the presence of freedom, economic entitlement and social opportunity – a comprehensive interpretation necessary to understand the differences between developed and developing countries.

### Freedom

- Political rights and civil rights
- Freedom of women as educating women can break the poverty cycle and increase the workforce and productive capacity of a country

### Economic entitlement

- Availability and access to finance
- Ability to utilise economic resources for consumption, exchange or production
- Openness of trade
- Surplus and the ability to invest the surplus into a functioning financial system (and not to have the surplus of a nation swallowed up by landowners spending it on rents)

### Social opportunity

- Access to education
- Access to health care
- Healthy institutions
- Transparent government
- Mobile class structure – a rigid class structure can leave marginalised groups limited by the circumstance of their birth
- Protective security such as unemployment benefits, famine relief
- Healthy attitudes to risk, which are beneficial as they encourage investment and growth

**De Rivero:** points out that despite great optimism in the twentieth century and emerging economic theories for development, only two small countries (South Korea and Taiwan) have managed to become 'developed'.

the current lexicon of 'developing country' compared to its predecessors 'less developed country' and 'poor country' imply the modern assumption that development is not only inherently possible, but inevitable. Yet, most countries in the world are simply not developed countries.

## Alternative measurements to growth

- Beyond GDP to measure
  - Green national accounts – adjust national account for depreciation in natural capital stocks e.g. Green Net National Product
  - HDI
  - Genuine Progress Indicator (adjusts for additional factors)
  - Happy Planet Index
  - World Happiness Report

- Not all growth measurements show an increase over time, some are the same, some lower over time

## **Getting to Development**

### *Lewis' Dual Economy Model*

Lewis' dual economy model suggests that the shift of human capital from the agricultural sector to the industrial sector is the pathway that leads to development. The proportion of the labour force in agriculture in developed countries supports this model. However, this model does not always hold true as it assumes the following things frequently absent in developing countries: a capitalist class to manage the development process, mobile workers, balanced migration flows and a well developed financial system. Poor institutions, a cultural aversion to risk, incompatible skill sets and the exaggeration migration factor can all impair development.

### *The importance of production*

Kalecki posits that a shortage of productive capacity prevents developing countries from achieving development. However, Hausmann and Hidalgo suggest that the diversity, not the magnitude of production capacity is what makes the difference. A case in point would be to compare the development of the Korean economy to that of Peru. In 1970, Korea's GDP was one half that of Peru, although Korea had a greater diversity of inputs. By 2003, with the diversity of inputs remaining relatively proportionate, Korea's GDP had become four times that of Peru. This is a more specific path towards development, yet it cannot be the only factor.

### *Benevolent Dictatorship*

On the other hand, something that the Four Tiger economies that developed in the late twentieth century have in common are a single strong political party leadership such as South Korea's Park Chung-hee, the Kuomintang of China in Taiwan, Singapore's Lee Kuan Yew or Britain's benevolent dictatorship over Hong Kong. Governments backed the private sector and embraced capitalism resulting in undeniable economic growth, accelerated by altruistic cultural values and means-end reasoning. However, this model is not without its deficiencies, particularly in freedoms and rights of the people.<sup>2</sup> Moreover, dictatorships are often not benevolent at all.

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<sup>1</sup> Hidalgo, C. A., and R. Hausmann. "The Building Blocks of Economic Complexity." *Proceedings of the National Academy of Sciences* 106.26 (2009): 10570-0575. Web. 19 Mar. 2016.

<sup>2</sup> Gilson, Ronald J., and Curtis J. Milhaupt. "Economically Benevolent Dictators: Lessons for Developing Democracies." *American Journal of Comparative Law* 59.1 (2010): 227-88. Web. 20 Mar. 2016.